

VZCZCXRO9134
PP RUEHCD RUEHGD RUEHHM RUEHHO RUEHJO RUEHMC RUEHNG RUEHNL RUEHPD
RUEHRD RUEHRS RUEHTM
DE RUEHME #2752/01 1491922
ZNR UUUUU ZZH
P 291922Z MAY 07
FM AMEMBASSY MEXICO
TO RUEHC/SECSTATE WASHDC PRIORITY 7201
RUEHC/DEPT OF LABOR WASHDC
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE
RUEHXI/LABOR COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RHEHNSC/NSC WASHDC
RHMFIUU/CDR USSOUTHCOM MIAMI FL

UNCLAS SECTION 01 OF 04 MEXICO 002752

SIPDIS

SIPDIS

DEPT FOR DRL/AWH AND ILCSR, WHA/MEX AND PPC, USDOLO FOR ILAB
DOE FOR INTERNATIONAL AFFAIRS
TREASURY FOR IA
NSC FOR D. FISK

E.O. 12958: N/A

TAGS: [ECON](#) [ELAB](#) [IO](#) [PGOV](#) [PINR](#) [MX](#)

SUBJECT: WORLD BANK BLAMES MEXICAN UNIONS AND PRIVATE
MONOPOLIES FOR HINDERING ECONOMIC REFORMS

¶1. SUMMARY: World Bank (WB) officials recently visited Mexico City to formally release a report on Mexico's efforts to enact economic reforms. The report entitled, &Mexico Beyond State Capture and Social Polarization8, concluded that the country's endeavors to carry out meaningful reforms are being stymied by entrenched labor unions and empire-like monopolies (both private and public). The WB report received wide coverage in the Mexican media, which, like the document itself, laid a larger share of the blame on unions (particularly public unions) than on large (private) monopolies. In making its case, the WB report indicated that the monopolies and the unions have been able to successfully resist change under Mexico's current pluralistic democracy as well as they did when a single political party ruled the country. The WB urged greater transparency as the best way to compel Mexican labor unions and monopolistic businesses to act more in the national than in their own parochial interests. A knowledgeable American observer of both the US and Mexican organized labor movements agreed with the WB report on the areas where urgent reform was needed and, to some extent, on the actors responsible for hindering these reforms, but questioned the relative influence of even the most powerful unions in comparison with that of Mexico's large private monopolies. END SUMMARY.

WORLD BANK DIAGNOSES MEXICO,S ECONOMY

¶2. In mid-May World Bank (WB) officials traveled to Mexico City to formally release a report, entitled &Mexico Beyond State Capture and Social Polarization8, that laid out its diagnosis of what ails the Mexican economy. The report listed 11 problems that impede economic development in Mexico: Competitiveness, Tax Laws, Regulatory and Investment Environment, Education, Transport, Corruption, Innovation, Finance, Energy, Labor, and the Macroeconomic Environment. Of the 11 problems listed in the WB the two items that received the most disparagement were the areas of Competitiveness, or more specifically the lack thereof because of (public and private) monopolies, and Labor.

¶3. None of the problems listed in the WB report are new to knowledgeable observers. Many of them are interconnected and topics of frequent public analysis by academics, journalists

and others. For instance, the report said there is little innovation in Mexico because monopolies ensure that there is little competition. Another example was the observation that corruption exists in Mexico as a way of dealing with a burdensome regulatory and investment environment. (Comment: Post notes that the WB report made no mention of what effects the public security or corruption problem generated by narcotics trafficking might be having on Mexico,s economy.) The report itself received wide coverage in the Mexican media, which, like the document itself, laid a larger share of the blame for Mexico,s economic problems on the country,s national labor unions than it did on its large private and public monopolies.

EMPIRE-LIKE MONOPOLIES

¶4. As noted above, the WB report singled out labor unions and monopolies as two of the most intractable elements negatively affecting the Mexican economy but for the most part the country,s monopolies came out as the lesser of the two evils. This is not to say that the report implied that if a choice had to be made monopolies were less bad than labor unions. Both were given near equal billing in preventing needed structural reforms. However, as reported in the national press, the greater villains preventing economic development in Mexico were labor unions and not monopolies.

¶5. The report made clear the WB view that monopolies both private (like Telmex, the de facto national telephone company) and public (like Pemex, the state-owned national petroleum company or the two companies who generate and distribute 100 percent of the country,s electricity) are

MEXICO 00002752 002 OF 004

significant factors preventing greater economic development in Mexico. These monopolies, the WB report said, was one of the main elements responsible for Mexico,s lack of competitiveness and was perhaps the single most important factor impacting the poor distribution of wealth in Mexico.

¶6. The report averred that the massive concentration of wealth in relatively few hands is then used by the privileged few to ensure that Mexican politicians protect the empire-like status of these nearly untouchable monopolies. Relatively speaking, the WB report devoted considerable detail to explaining how Mexico,s telecommunications monopoly prevents competition and then translates its financial wealth into political power. The power of monopolies like Telmex, the WB report stated, operates outside of Mexico,s formal electoral processes and mitigates accountability in the legislative arena. As a result, the report said, Mexican voters grow (increasingly) skeptical of their politicians and of anyone,s ability to obtain effective economic reform through the formal political system. One reporter told post,s Labor Counselor that, in general, the Mexican public is against privatization (and the politician who advocate for it) because so far in Mexico it has only served to make the rich richer.

LABOR UNIONS) THE TRUE EVIL EMPIRES (?)

¶7. The WB report, at least in the local media coverage of it, portrayed Mexico,s labor unions as the true evil empires in the national economy. The worst actors in this scenario were the National Teachers Union (SNTE), the Pemex Workers Union (STPRM), the two Electrical Workers Unions (SME in Mexico City and the surrounding states and SUTERM in the rest of the country) and the Telephone Workers Union (STRM). Although the report itself (on the World Bank Website) did not go too far out of its way to single out any of these unions as being worst than the others, the local media coverage of the report highlighted the Teachers Union and the

two Electrical Workers Unions as the typical examples of how unions prevent economic reforms.

¶8. According to the WB report and the local media coverage of it Mexican labor unions are able to (negatively) influence the country's efforts to implement economic reform through their ability to strike or otherwise disrupt key state functions (like education or the provision of electricity) or important sources of state revenue (oil sector income). Also, depending on the circumstances, the unions are every bit as willing as the large monopolies to use financial inducements to influence Mexican politicians. The local media's coverage of the report faulted the SNTE for its excessive political influence and the poor state of Mexican education. The media cites STRM for the fact that Mexico has some of the highest telephone rates in the world.

¶9. All of the above mentioned unions were cited for excessive labor costs. The WB reportedly compared the salaries in Mexico of employees with similar education levels and work experiences. Using that standard, the media reported, Pemex Union members workers receive salaries 71 percent higher than similar Mexican workers. The telephone workers of STRM receive salaries 30 percent higher. In the case of the SME and SUTERM, their salaries were compared to an international average and not to similar workers in Mexico. By that standard their salaries were reportedly a minimum of 50 percent higher than the international average for similar workers.

WB REPORT RECOMMENDS GREATER TRANSPARENCY

¶10. In the case of both the unions and the monopolies, the WB report recommended greater transparency as the key to reducing the influence these two groups have on Mexico's economy. As in other parts of its report the WB devoted more time to the unions than it did to the monopolies. In

MEXICO 00002752 003 OF 004

fairness to the WB, the organized labor movement in Mexico does seem particularly resistant to almost any type of openness or transparency. For example, union workers have no legal right to know what the union leadership does with organization resources. Workers are often enrolled in unions as a condition of employment and without their knowledge but once in the union they are not informed of their rights as union member, they are not entitled to know the terms of their union negotiated contract nor can they easily find out such basic information as the names and business contact phone numbers of the leaders of their unions.

¶11. That said, such practices, while very wide spread, normally occur only in cases where the unions are not real organizations formed to collectively bargain but rather paper unions that are actually operated by persons or offices controlled by an employer. However, this abuse of workers is made possible by the resistance of genuine labor unions to being held openly accountable for many of their internal procedures or for any of the financial transactions they conduct on behalf of the union. Any and all attempts to promote this type of transparency are met with cries of interference in union autonomy; a right guaranteed under Mexican federal labor law.

¶12. In the case of both the unions and the monopolies the WB report asserted that greater transparency would make it increasingly difficult for privileged actors to put their special interests above the greater interests of the Mexican public. The WB report firmly stated that the lack of transparency has enable these special interest groups to defend their privileges as well now, when Mexico is a more democratic and pluralistic society, as they did when the country was essentially ruled by a single party.

ANOTHER PERSPECTIVE

¶13. A knowledgeable American labor observer with long experience in the US and Mexican organized labor movements agreed with the WB report on the areas where urgent reform was needed and, to some extent, on the actors responsible for hindering these reforms. That said, he questioned the relative influence of even the most powerful unions in comparison with that of Mexico's large private monopolies. For example, the teachers union, which is undoubtedly one of the more powerful in the country, received some of the report's harsher criticism. Its influence in education, teachers' salaries (as opposed to SNTE union leadership salaries), and public civil servants' pension and health care is considerable. However, the observer stressed, outside of these important but nevertheless finite areas, the Teachers union's influence is extremely limited. The American observer noted that there is no area of Mexican society and even many of its foreign commercial activities that are outside the influence of the owners of Mexico's telephone monopoly. Consequently, he seriously doubted whether the WB report could really be called a fair and balanced document.

COMMENT

¶14. The extensive local media coverage of the release of the WB report on Mexico's efforts at economic reform is a clear indication of how many in the country are keenly aware of how Mexico is perceived by the outside world. The heavy local media emphasis on the negative role played by the country's organized labor movement feeds into the perception reported in a recent national poll that cited national unions as one of the least respected institutional groups in Mexico. Given their resistance to almost any type of change that would foster openness and transparency, the unions have perhaps unwittingly contributed to the negative image of them held by many in the Mexican public. The damage that the unions have done to their own image notwithstanding, the size of organized labor unions has markedly decreased in the past 10-20 years. With this reduction in size has come a growth in internal divisions and, according to many officials, a

MEXICO 00002752 004 OF 004

corresponding reduction in economic and political influence. The same cannot be said of the country's largest national monopolies.

Visit Mexico City's Classified Web Site at
<http://www.state.sgov.gov/p/wha/mexicocity> and the North American
Partnership Blog at <http://www.intelink.gov/communities/state/nap/>
BASSETT